Supreme Court, U. S.
FILED
JUL 3 1978
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No. 78-291

PETER M. ROBERTS,
Plaintiff-Petitioner,

vs.

SEARS, ROEBUCK & CO., a corporation,
Defendant-Respondent.

ON CROSS-PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

CROSS-PETITION FOR WRIT OF CERTIORARI
Filed By Plaintiff, Peter M. Roberts

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CROSS-PETITION FOR WRIT OF CERTIORARI

Filed By Plaintiff, Peter M. Roberts

JURISDICTIONAL STATEMENT

Plaintiff, Peter M. Roberts, brought this civil action to obtain rescission of a contract, return of his patents, and monetary restitution from defendant, Sears, Roebuck & Co., on account of fraud, breach of a confidential relationship, and negligent misrepresentation committed by Sears in acquiring plaintiff's rights in his conception and development of a Quick Release For Socket Wrenches.

The cause was filed in the United States District Court for the Northern District of Illinois on December 12, 1969, and was tried to the court and jury seven years later from December 20, 1976 to January 18, 1977. The jury returned a verdict finding Sears guilty of all three charges of fraud, breach of a confidential relationship and negligent misrepresentation and assessing plaintiff's "damages" at $1,000,000 on January 18, 1977. Judgment was entered on the verdict the same date. The District Judge denied all post trial motions and entered final judgment on March 25, 1977.

Both parties cross-appealed to the United States Court of Appeals for the Seventh Circuit. Plaintiff sought reversal of the District Court's order denying award of complementary equitable relief attendant upon rescission of the contract, including the return to Roberts of his patents and the award to Roberts of Sears' wrongfully obtained profits. The Court of Appeals affirmed the jury verdict finding fraud, breach of a confidential relationship and negligent misrepresentation and reversed the District Court to the extent that the District Court was ordered to determine whether rescission and return of plaintiff's patents was appropriate. Hearing of that aspect of the case remains pending in the District Court. The District Court's refusal to award Roberts Sears' profits from its use of Roberts' idea prior to trial was affirmed, from which refusal this Cross-Petition for Writ of Certiorari emanates. The opinion of the Court of Appeals was rendered April 3, 1978. No rehearing was requested by either party. No stays of judgment or extensions of time have been allowed by the Court of Appeals, and two motions by Sears for a stay of the mandate of the Court of Appeals have been denied, first by Justice Stevens and then by Chief Justice Burger.

Jurisdiction of this court is predicated upon the provisions of 28 U.S.C. § 1254(a).*

The opinion of the United States Court of Appeals for the Seventh Circuit is published at 573 F. 2d 296 and is attached as an appendix to this Petition. The District Court did not prepare any written findings or opinion.

QUESTION PRESENTED FOR REVIEW

By drafting and giving an instruction and by refusing to exercise his equitable powers as a Chancellor, may a District Court, in a case where fraud and breach of a confidential relationship have been proved, permit the wrongdoer to retain virtually all the unjust enrichment it derived as a result of its fraudulent conduct, in conflict with principles of restitution uniformly enunciated by virtually every court in the land?

* Plaintiff asks the Court to treat this Petition as conditional, and to grant his Cross-Petition for Writ of Certiorari only if the Court first decides to take this case on appeal by granting the Petition for Writ of Certiorari which the defendant Sears, Roebuck and Co. has stated in several affidavits it would file. The plaintiff is willing to abide the result in the court below because he believes that under the opinion of the Court of Appeals he will at least receive the return of his patents and all post-judgment profits derived by Sears, Roebuck from the use of Roberts' idea and invention until those patents are returned. However, in the event this Court accepts this case by granting a Petition for Writ of Certiorari which plaintiff believes Sears will file, plaintiff asks the Court to consider the propositions urged in his Petition and to grant to him the relief sought which he has been improperly denied in the trial court and in the Court of Appeals. If the Court grants a Writ of Certiorari based on Sears' Petition, we believe the Court should review the entire case by granting this Cross-Petition and correcting the erroneous result reached on the important issue of the correct measure of monetary restitution, to insure that this opinion will not become a precedent modifying the obligation of those guilty of fraud to surrender all of their ill-gotten gains.

STATEMENT OF THE CASE

When he was only 19 years of age, Peter M. Roberts invented a device known as a Quick Release For Socket Wrenches which was long needed and which would greatly increase the speed and utility of hand-held socket wrenches by those who need them daily in their trade, particularly automobile mechanics, and for the first time made the socket wrench fully usable as a one-hand tool. Because the socket wrench is a basic tool in a machine dependent society, Roberts' innovation was of enormous economic importance in both the automotive and mechanics fields. Sears, for whom Roberts worked part-time as a retail hardware clerk, learned of the invention, obtained possession of Roberts' only prototype, made copies of it, fully tested and evaluated the concept, decided before it had manufactured or sold even one wrench conforming to Roberts' Quick Release design to immediately replace nearly 75% of its wrench line (consisting of over a million units of sales annually) with this new invention, and then by fraud and breach of the confidential relationship which arose between Roberts and Sears, Sears procured Roberts' agreement to assign all of his rights in the invention to Sears.

The details of Roberts' conception of the Quick Release Device, Sears' evaluation, and Sears' fraudulent conduct are well stated in the Court of Appeals' opinion and will not be restated here, because the issue presented for review turns not on the underlying facts supporting the jury finding of fraud, which has now been approved by the District Judge and affirmed by the Court of Appeals, but upon the propriety of the monetary restitution which the jury awarded based on an instruction

drawn and given by the trial court. The following factual statement concerns only the circumstances under which this instruction, which did not represent the more favorable statement of the law plaintiff was entitled to, was prepared and given.

From the date this cause was filed in December of 1969, through two amendments to the Complaint, and to and through the time of trial, plaintiff requested, *inter alia*, rescission and the return of his patents and that he be awarded the profits Sears had obtained and was and is, to this date, continuing to obtain by its incorporation of his Quick Release Device into now more than 25 million socket wrenches sold by Sears. At trial plaintiff asserted and proved three separate theories of recovery, being fraud, breach of a confidential relationship and negligent misrepresentation. Plaintiff has taken no appeal and raised no claim concerning the measure of recovery under the plaintiff's third claim, being the claim of negligent misrepresentation.

At the close of the trial, plaintiff tendered an instruction concerning the proper measure of monetary restitution under each of the three theories. Under plaintiff's first and second claims, being claims of fraud and breach of a confidential relationship, this instruction would have informed the jury that in fixing the proper recovery under these claims they were to determine the net amount of profit Sears obtained by using Roberts' invention. Plaintiff's tendered instruction number 9 provided:

> If you decide, in accordance with these instructions, that the defendant wrongfully acquired the property rights of the plaintiff to his Quick Release invention or idea, and as embodied in the prototype Quick Release wrench the plaintiff placed in the possession of the defendant, either by taking unfair

advantage of a confidential relationship under the plaintiff's first claim, or by reason of fraud of the defendant under the plaintiff's second claim, or by reason of negligent misconduct under the plaintiff's third claim, then you are instructed that you must find that the contract in question entered into between the plaintiff and defendant is null and void, is not binding upon the parties, and must be set aside.

You are further instructed that, if you decide in favor of the plaintiff by reason of the defendant's taking unfair advantage of a confidential relationship under the first claim, or by reason of fraud under the second claim, and further find that the defendant derived advantages, including incremental profits, from use of the plaintiff's property rights and ideas, you must then fix an award of money equal to the net value of those advantages, including net incremental profits. The object of the law in awarding damages to one who has been taken unfair advantage of in a confidential relationship or one who has been defrauded is to deprive the wrongdoer of all the enrichment which he has thereby unjustly gained so that there is no profit to a wrongdoer in taking unfair advantage of a confidential relationship or in committing fraud.

You are further instructed to fix any such award as follows. You must first determine the amount of money which equals the gross value of all advantages, including gross incremental profits, which the plaintiff has proved it is more probably true than not true were derived by the defendant from the use of plaintiff's Quick Release invention or idea up to the present. Then you must deduct from this figure an amount of money equal to all actual expenditures of the defendant which the defendant has proved it is more probably true than not true were made by the defendant in connection with the merchandising of Quick Release wrenches embodying Roberts' invention or idea which expenses the defendant would not have made or incurred if it

had not acquired or used the plaintiff's Quick Release invention or idea.

If the defendant is unable to show or has not proved what, if any, expenditures the defendant has made in connection with the plaintiff's Quick Release invention or idea which would not have been made if the defendant had not acquired or used the plaintiff's Quick Release invention or idea, the inability of the defendant to make that proof shall not be permitted to interfere with or deprive the plaintiff of the right to recover in this action the full amount of any money you have determined equals the full gross value of those advantages, including the gross incremental profits, reaped by the defendant from the acquisition and sale of the plaintiff's Quick Release invention in its ratchet wrenches up to the present time.

If, on the other hand, you decide, in accordance with these instructions, that the defendant obtained the plaintiff's property rights to the Quick Release invention or idea, or embodied in the prototype Quick Release wrench he placed in the possession of the defendant, by reason of negligent misconduct of the defendant, then you must award damages to reasonably and fairly compensate the plaintiff in a sum of money equal to the rental or royalty value of the Quick Release invention and idea from the time it was acquired and sold in its wrenches by the defendant until the present time.

The object of the law in awarding damages to the victim of a negligent misconduct is to reasonably and fairly compensate him for the rental or royalty earnings which he was thereby deprived of and you are therefore further instructed to make no deductions from any amount which you find will reasonably and fairly compensate the plaintiff for the rental or royalty value which he was deprived of by the defendant for his Quick Release invention and idea. (App. 437-38)

During argument at the instruction conference, the trial court refused plaintiff's tendered instruction number 9 believing that the jury could not be asked to declare the contract rescinded and that the proper measure of recovery was not Sears' profits but Roberts' loss. (Tr. 2990). Plaintiff then tendered instruction 9A, a modified form of instruction 9, which provided in pertinent part:

> "If you find in favor of the plaintiff upon either the first or the second claim then you must fix an award of money damages equal to the net value to the defendant of the benefits it derived from the use of plaintiff's invention and idea." (App. 475)

The trial court also refused this tendered instruction, believing that this draft would require the jury to return a verdict in the full amount of Sears' net profits (Tr. 3169-70; App. 475-76), amounting to millions of dollars to the time of the trial. Instead of instructing the jury, if it found fraud, or breach of a confidential relationship, to determine the amount of the net profits, as monetary restitution, the trial court modified the plaintiff's tendered instruction to inform the jury in essence that it *might consider* the amount of net profits Sears' obtained by use of Roberts' invention. The instruction drawn and given by the trial court provided:

> If you find in favor of the Plaintiff upon either the first or second claim, then, one of the elements of the money damages to be considered by you may be the net value to the Defendant of the profits and benefits derived from the use of Plaintiff's invention.
>
> The award of money damages you make may equal the net profits which you find the Defendant gained as a result of its merchandising of wrenches incorporating Plaintiff's quick release invention and idea, minus any expenditures which you find the Defendant has proved it incurred which it would not have incurred had it not merchandised such

> wrenches incorporating Plaintiff's quick release invention and idea from the time of the contract in question to the present.
>
> However, if you decide in favor of the Plaintiff only upon the third claim, then, one of the elements of the money damages to be considered by you may be the value of a reasonable royalty on the quick release wrenches sold by the Defendant from the time of the contract in question to the present. (App. 485)

Plaintiff's counsel had argued that under uniform decisions from Illinois and many other states, from several circuits of the United States Courts of Appeal, and, indeed from this Court, the amount of net profit was, as a matter of law, the only proper measure of monetary restitution where fraud has been committed (Tr. 3170, App. 476) and reiterated plaintiff's position that the instructions plaintiff had tendered, which the court had refused, properly stated the law concerning plaintiff's entitlement to recover Sears' profits. (Tr. 3269, App. 483)

Plaintiff's post trial motions asked the trial court, in his capacity as a chancellor, to enter the complete equitable relief that a jury could not effect, such as restitution, including a request to order the return of plaintiff's patents and payment to Roberts of Sears' net profits. Those motions were denied because the trial court believed plaintiff had made an "election of remedies" and that the theory of res judicata would bar the trial court from granting that relief. Both parties appealed, and in its opinion filed April 3, 1978, the U. S. Court of Appeals for the Seventh Circuit sustained the jury findings of fraud and breach of a confidential relationship. However, the Court of Appeals refused plaintiff's request to reverse and remand for a deter-

mination and accounting of Sears' profits, evidently based on a mistaken belief that plaintiff failed to object to some "procedure" employed by the trial court. Evidently the Court of Appeals failed to realize that the plaintiff had insisted the jury was not being instructed on the proper measure of recovery, since the Court stated that plaintiff had asked the trial court to award relief "based on essentially the same standard the jury used." Opin., 573 F. 2d at 985. However, comparison of the instruction plaintiff tendered, requiring a determination of Sears' profits, to the trial court's instruction only *allowing consideration* of Sears' profits shows this statement to be in error.

During the trial, only plaintiff presented detailed, quantified proof of the amount of Sears' net profits from information derived solely from Sears and its supplier, being all the sales, cost and price figures which Sears and its supplier said they maintained. An expert in marketing, Theodore Levitt, from Harvard Business School and an expert in economics, Dr. Charles M. Linke, from the University of Illinois, carefully explained the calculations they performed, based on Sears' data, which showed Sears' *incremental net profit* (after deduction of all known allocable expenses and costs) was 44 million dollars on the sale of wrenches equipped with the Roberts' Quick Release Device alone prior to the time of trial.

As a consequence of the jury verdict awarding only $1,000,000 to plaintiff, (an amount which was less than a reasonable royalty), the party found to have committed fraud and breach of its confidential relationship with Peter Roberts has been allowed to retain virtually all of the fruits of its gross misconduct.

ARGUMENT

IN CONFLICT WITH DECISIONS OF THIS COURT AND VIRTUALLY ALL OTHERS THROUGHOUT THE LAND, SEARS HAS BEEN PERMITTED BY RULINGS OF THE TRIAL COURT AND COURT OF APPEALS TO RETAIN NEARLY ALL THE PROFITS IT UNJUSTLY OBTAINED AS A DIRECT RESULT OF ITS PROVEN FRAUDULENT CONDUCT.

The "damage" instruction drawn and given by the District Court (and approved by inference by the Court of Appeals) vastly alters the uniform penalty for fraud followed by virtually all courts since the inception of the Republic. Far from being a question simply of just compensation for Roberts, the issue here confronted touches the most basic purpose of the remedies long enforced when fraud has been proved, being to compel the fraudfeasor to disgorge all unjustly obtained profit so there will be no incentive sanctioned by the law to commit such wrongdoing. The holding by the Court of Appeals in this case, however, may alter the rule from time immemorial that a fraudfeasor cannot profit by his fraud. No longer will a fraudfeasor be required to disgorge all ill-gotten gains. Now, rather than being told that the law requires the fact-finder to assess and deprive the commercial fraudfeasor of his booty, the fact-finder "may" but need not "consider" the net value of profits derived from fraud, in assessing a monetary award and "may" award money damages equal to the net profits, but need not do so. As has happened here, such an instruction fails to advise the jury of the correct legal measure of recovery, and allows a party guilty of the grossest fraud to keep the fruits of his unpardonable conduct.

Because this instruction and the decisions of the District Court and Court of Appeals directly conflict with controlling decisions of this Court and prevailing authority from other Circuits and the several States, including Illinois, plaintiff respectfully petitions for issuance of a Writ of Certiorari to enable this Court to review this ill-advised departure from settled law. We are certain the last thing the Court of Appeals intended was a ruling that conceivably could encourage predatory business conduct and debase the morality of the marketplace. However, completely contrary to settled remedies doctrine, Sears has so far been able to walk away from its loss of this case, financially speaking, with payment of a sum that was to it no more than a slap on the wrist, given the enormous profits it has reaped from its fraud.

It is an ancient and unyielding principle of the law that one who obtains property through fraud or breach of a confidential relationship may not retain that property or any profit derived from its use. For the rule to be otherwise would create an utterly intolerable incentive to engage in wilful misconduct.

In the patent infringement case of *Tilghman v. Proctor*, 125 U.S. 136, 145-46 (1888), this Court explained the reasons for requiring the wrongdoing infringer to disgorge profits, in part, by stating that it is inconsistent with the "ordinary principles and practice" of the courts of chancery to allow "the wrongdoer to profit by his own wrong." Following the same reasoning, in *International Industries, Inc. v. Warren Petroleum Corp.*, 146 F.Supp. 157 (D.Del. 1956), *aff'd*, 248 F.2d 696 (3d Cir. 1957), the Third Circuit Court of Appeals held the misappropriator of a trade secret liable for all benefits it ob-

tained.[1] The trial court summarized the proper relief as follows:

> . . . under the theory of unjust enrichment, the measure of recovery here is the value of the benefit resulting to the defendant as a result of its tortious acquisition and use of the plaintiffs' "trade secret". 146 F. Supp. 157, 177 (D.Del. 1956)

In affirming, the Court of Appeals cited *Tilghman v. Proctor*, *supra*, and held:

> The appropriate measure of damages, by analogy to patent infringement, is not what plaintiff lost, but rather the benefits, profits or advantages gained by defendant . . . 248 F.2d at 699.

Similarly in *Janigan v. Taylor*, 344 F.2d 781, 786 (1st Cir. 1965), *cert. denied*, 382 U.S. 879 (1965), the First Circuit Court of Appeals (explicitly applying common law principles in a securities case) required the wrongdoer to disgorge profits realized from appreciation of stock wrongfully acquired, holding:

> It is more appropriate to give the defrauded party the benefit even of windfalls than to let the fraudulent party keep them. We may accept defendant's position that there was no fiduciary relationship and that he was dealing at arm's length. Nonetheless it is simple equity that a wrongdoer should disgorge his fraudulent enrichment.[2]

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[1] As a method for computing the benefit in International Industries, the court chose a comparison method between the costs incurred before and after the misappropriated trade secret was used. In the instant case, plaintiff's proof at trial followed a similar course by showing only the increased income to Sears above the income or profit it otherwise would have made on standard wrenches.

[2] Citations omitted. In support of its conclusion, *inter alia*, the Janigan court cited Falk v. Hoffman, 233 N.Y. 199, 135 N.E. 243 (1922) (per Cardozo, J.); 4 A. SCOTT, TRUSTS §§ 507, 508.1 (2d ed. 1956); and RESTATEMENT OF RESTITUTION §§ 151, 202, comments *b*, *c* (1937).

Janigan was a case where the profits recoverable from the tortfeasor were those realized through the resale of the asset wrongfully acquired from the plaintiff, but more frequently, as in the case at bar, the cases involving recovery of profits involve benefits which were derived from the use of an asset wrongfully acquired or used by a tortfeasor. Thus in *Brooks v. Conston*, 356 Pa. 69, 51 A.2d 684 (1947), *decree amended*, 364 Pa. 256, 72 A.2d 75 (1950), the plaintiff obtained restitution of profits realized over a period of about four years from the operation of a chain of retail stores fraudulently acquired by the defendant from the plaintiff.

Similarly, in *Olwell v. Nye & Nissen Co.*, 26 Wash. 2d 282, 173 P.2d 652 (1946), recovery was allowed *in a law action* of profits realized by the wilful converter of machinery, based on wrongful use over a period of three years.[3] In affirming the plaintiff's right to the restitution of profits, the *Olwell* court reasoned:

> *If he* [the defendant] *was consciously tortious in acquiring the benefit, he is also deprived of any profit derived from his subsequent dealing with it.* 26 Wash. 2d at 287, 173 P.2d at 654.

In *Edwards v. Lee's Administrator*, 265 Ky. 418, 96 S.W.2d 1028 (1936), the plaintiff recovered profits realized by a wilful trespasser from commercial exploitation of an underground cave which extended under plaintiff's property. In a lengthy discussion of the nature

[3] The plaintiff in Olwell had already regained possession of his property, so there was no need to include a prayer for the return of his property in his complaint. As Mooneyham v. Cornick, 294 S.W. 894, 899 (Tex. 1927), demonstrates, however, a plaintiff who is not in possession may, under a merged procedural system, join in one suit prayers both for the return of his property and for monetary restitution of the defendant's unjust enrichment.

of remedies for damages, for profits, and for unjust enrichment, the court reasoned:

> Whether we consider the similarity of the case at bar to (1) the ordinary actions in assumpsit to recover for the use and occupation of real estate, or (2) the common-law action for mesne profits, or (3) the action to recover for the tortious use of a tradename or other similar right, we are led inevitably to the conclusion that the measure of recovery in this case must be the benefits, or net profits, received by the appellants from the use of the property of the appellees. *The philosophy of all these decisions is that a wrongdoer shall not be permitted to make a profit from his own wrong.* 265 Ky. at 427, 96 S.W.2d at 1032 (emphasis added).

In *Neenan v. Otis Elevator Co.*, 194 F. 414 (S.D. N.Y. 1911), Judge Learned Hand ordered both the reconveyance of a patent and monetary restitution relative to the period prior to reconveyance. *Accord, Sabo v. Delman*, 164 N.Y.S.2d 714, 3 N.Y.2d 155, 143 N.E.2d 906 (1957) (sustaining a complaint requesting reassignment of patents fraudulently acquired and an accounting of profits.)[4]

Illinois authorities uniformly recognize that rescission is a proper remedy where unique chattels have been acquired through fraud: *e.g., Corzine v. Keith*, 384 Ill. 435, 51 N.E.2d 538 (1943); *Hinkley v. Wynkoop*, 305 Ill. 115, 137 N.E. 154 (1922); *O'Ferrall v. O'Ferrall*, 276 Ill. 132, 114 N.E. 561 (1916); through breach of a confidential relationship: *e.g., Warren v. Pfeil*, 346 Ill. 344, 178 N.E. 894 (1931); *Swiney v. Womack*, 343 Ill. 278, 175 N.E. 419 (1931); *Feeney v. Runyan*, 316 Ill. 246, 147

[4] For identification of the relief sought, see the Opinion of the Supreme Court, Appellate Division, 286 App.Div. 238, 142 N.Y.S. 2d 223, 225 (1955).

N.E. 114 (1925); *Dorsey v. Wolcott*, 173 Ill. 539, 50 N.E. 1015 (1898); *O'Halloran v. Fitzgerald*, 71 Ill. 53 (1873); or through misrepresentation: *e.g. Douglass v. Treat*, 246 Ill. 593, 603, 92 N.E. 976, 979 (1910) (by implication); *cf., McAfee v. Rockford Coca-Cola Bottling Co.*, 40 Ill. App. 3d 521, 352 N.E.2d 50 (2d Dist. 1976).

To fully effectuate this remedy, Illinois follows the traditional rule in compelling the wilful wrongdoer to disgorge any wrongfully received benefits, *e.g., Callner v. Greenberg*, 376 Ill. 212, 215, 33 N.E.2d 437, 439 (1941); *Duncan v. Dazey*, 318 Ill. 500, 525, 149 N.E. 495, 505 (1925); *Miller v. Miller*, 266 Ill. 522, 531-32, 107 N.E. 821, 824 (1915); *Peterson v. Yacktman*, 25 Ill. App. 2d 208, 217, 166 N.E.2d 452, 457 (1st Dist. 1960); *Jones v. Ulrich*, 342 Ill. App. 16, 27, 95 N.E.2d 113, 118 (3d Dist. 1950); *Bell v. Felt*, 102 Ill. App. 218, 227 (1st Dist. 1902), *aff'd as modified*, 205 Ill. 213, 68 N.E. 794 (1903). As the Illinois Supreme Court stated in *Callner v. Greenberg, supra*, at 215, 33 N.E.2d at 439: "The law is well settled that equity will not permit a person to derive any benefit from a fraud perpetrated by him."

In *Bell v. Felt, supra*, the court confirmed, at 227, that "a party committing a fraud is precluded from deriving any benefit therefrom." The claimant had been defrauded in a transaction involving his purchase of an interest in certain patents, and the court set the assignment aside, as plaintiff argues should be done here. More recently, the same rule has been restated in *Peterson v. Yacktman, supra*. Relying on both *Callner* and *Bell*, the court stated that it had "the power to take away the benefit obtained by fraud and void the fraud by placing the parties in *statu quo*." 25 Ill. App. 2d at 217, 166 N.E.2d at 457.

In *Duncan v. Dazey*, 318 Ill. 500, 149 N.E. 495 (1925), a case which granted the very specific and monetary restitution Roberts seeks here, the defendant fraudulently acquired property from the plaintiff and was compelled both to return the property and to account to the plaintiff for the fair cash rental value of the land for the period it was detained. Plaintiff has already cited numerous Illinois cases reaching this same result. The rule in Illinois, as everywhere, is that, "[e]quity will not permit a person to derive any benefit from fraud perpetrated by him." *Duncan v. Dazey, id.* at 525, 149 N.E. 505. "It is an established principle of equity that one will not be permitted to derive any benefit from his own fraud." *Miller v. Miller, supra*, at 531, 107 N.E. at 824. "A frequent application of the rule is found in cases where one party has obtained title to property by fraudulent means." *Duncan v. Dazey, supra.*

Rescission cases from other jurisdictions are fully in accord, *e.g., California: Kenney v. Parks*, 137 Cal. 527, 70 P. 556 (1902); *Millar v. James*, 254 Cal. App. 2d 530, 62 Cal. Rptr. 335 (1967); *Kansas: Sykes v. Perry*, 162 Kan. 365, 176 P.2d 579 (1947); *Massachusetts: Lang v. Giraudo*, 311 Mass. 132, 40 N.E.2d 707 (1942); *Minnesota: Dietz v. Dietz*, 244 Minn. 330, 70 N.W.2d 281 (1955); *Texas: Mooneyham v. Cornick*, 294 S.W. 894 (1927). *Cf., Maryland: Worthington v. Hiss*, 70 Md. 172, 16 A. 534, 536 (1889); *Nebraska: Crockett v. Miller*, 112 F. 729 (8th Cir. 1901). Accord, 66 Am. Jur. 2d *Restitution and Implied Contracts*, § 171, at 1098 (1973).

Restatement of Restitution § 157, comment *a*, holds a wrongdoer responsible for restitution of the specific property *and* the value of its use, when fraud is involved, thus:

> In all cases the person entitled is fully restored to his original position only if compensation is made for the use of the subject matter for the period during which he was deprived. This compensation will vary according to the subject matter and the respective faults of the parties. Thus *if the recipient was consciously tortious he should fully compensate the other and should make no profit from the use* (emphasis supplied).

Thus, throughout the jurisprudential history of the common law in the United States, as well as in England,[5] one uncontroverted principle underlying the restitutionary remedy for unjust enrichment is that a wrongdoer may not profit from fraud or breach of confidence.[6] The "tendency of the law," in fact, "has been in the direction of enforcing increasingly higher standards of fairness or commercial morality in trade." 3 *Restatement of Torts* at 540 (1938).

> The defendant . . . stands largely in the position of a defaulting trustee which has breached its fiduciary obligation . . . . As such it must account for its profits without regard to the extent of the plaintiff's actual damages; . . . *Adolph Gottscho, Inc. v. American Marking Corp.*, 26 N.J. 229, 240, 139 A.2d 281, 287 (1958).

Despite the plaintiff's consistent demand for rescission and restitution of his property from 1969 on, and despite

[5] *E.g.*, Reading v. Attorney General, [1951] A.C. 507.

[6] "The rule [that profits can be recovered under such circumstances] . . . is *not a limitation* upon the damages due. . . . '[D]amages should not be restricted to defendant's actual profits . . . but [should be] not less than the monetary gain which the defendant reaped from his improper acts.'" Clark v. Bunker, 453 F.2d 1006, 1011 (9th Cir. 1972). The court in the Clark case allowed for punitive damages and other restitution in addition to an award of the defendant's profits. 453 F.2d at 1011-1012, citing 2 R. CALLMAN, UNFAIR COMPETITION AND MONOPOLIES § 51, at 495-96 (3d ed. 1968, 1971 Supp.).

the firmly supported, indeed unassailable finding by the jury of fraud, breach of confidential relationship and misrepresentation, Sears now shockingly remains in the position of having obtained plaintiff's property and large profits by gross and wilful misconduct and, incredibly, of being allowed to retain almost all of these wrongful gains in direct contravention of these many and controlling authorities, commanding enforcement of this paramount public policy.

How did it happen, in the case at bar, that this unusual result was reached? The answer is deceptively simple, and lies in the trial court's erroneous belief that the proper measure of monetary restitution (or "damages") was what plaintiff lost, rather than the unjust enrichment Sears obtained. (Tr. 2990) The Court of Appeals, in affirming the trial court's ruling, did not address the question of the proper measure of recovery, nor did it discuss the form of instruction which the trial court prepared and gave. Rather, the Court of Appeals focused, plaintiff believes inappropriately, on some procedure in which it believed plaintiff acquiesced. The plaintiff has contended and continues to contend that the question of monetary restitution could properly be submitted to the jury, but that the instruction intended to guide the jury to the legally correct result (assessment and award of all wrongfully obtained profits), was an incorrect statement of the proper measure of recovery. The *procedure* of asking the jury in this combined legal and equitable case to find and fix the value of monetary recovery was correct,[7] but the instruction that the jury

[7] Although Sears did object to the question going to the jury, the trial court nevertheless quite properly decided that a jury could determine the monetary recovery in this case. Plaintiff's entitlement to a jury trial in this combined equitable and

(Footnote continued on following page)

was given, was not. Plaintiff tendered a correct instruction, and it was only after the court rejected plaintiff's instructions that the court gave the instruction of its own authorship. Plaintiff had no choice but to allow that instruction to be given, lest he be left with no instruction on the subject at all. Plaintiff was not simply entitled to a jury, but a jury which was properly instructed under the law applicable to plaintiff's theory of recovery. After the return of the jury verdict in the amount of $1,000,000 on each of plaintiff's claims of fraud and breach of a confidential relationship, which surely did not measure profits since the jury was not instructed to do so, the trial court persisted in applying an incorrect measure of recovery when it refused to grant the equitable relief sought in plaintiff's Post Trial Motion, including entry of an order forcing Sears to disgorge its profits, which the court was fully empowered to perform as chancellor.

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[7] *continued*
legal claim is now settled under the controlling decisions in Ross v. Bernhard, 396 U.S. 531 (1970); Beacon Theaters, Inc. v. Westover, 359 U.S. 500 (1959), and Dairy Queen, Inc. v. Wood, 369 U.S. 469 (1962). As this Court expressly held in Ross, under the Federal Rules there is only one action, denominated a civil action, "in which all claims may be joined and all remedies are available." Also, the Court held that under the rules, ". . . law and equity are procedurally combined; nothing turns now upon the form of the action or the procedural devices by which the parties happened to come before the court." The proper commitment to the jury of certain but not all issues in a combined case is demonstrated in the opinion of Chief Judge Edelstein in Prudential Oil Corp. v. Phillips Petroleum Co., 392 F. Supp. 1018 (S.D. N.Y. 1975) where the Court held that misappropriation claims were properly triable to a jury, relying upon Beacon Theaters and Ross, because misappropriation is a legal claim which supports the right to jury trial, even though equitable issues exist and may remain to be tried. Accord, Bruce v. Bohanon, 436 F. 2d 733 (10th Cir. 1971), and Robine v. Ryan, 310 F. 2d (2d Cir. 1962).

The consequence of failing to apply the correct measure of recovery by failing to correctly instruct the jury in accord with the facts, theories, and law applicable in this case and by failing to correct that error by granting equitable relief transcends the controversy between Peter Roberts and Sears, Roebuck & Co. Sears has committed fraud in its acquisition and use of the Roberts' Quick Release invention. Plaintiff has proved the profits Sears has made from the use of plaintiff's property. Plaintiff's entitlement to the profit Sears unjustly retains is compelled by both current controlling authority and the abiding dictates of our common law. Indeed, the unbroken chain of state and federal decisions granting precisely the relief plaintiff here seeks extends back over the entire course of English and American jurisprudence. Yet because of the District Court's incorrect interpretation of the law, and the misplaced focus of the Court of Appeals' review, not only has Sears' unjust enrichment been left virtually untouched, but the Seventh Circuit has now articulated, albeit inadvertently, a legal precept which may fail to sharply discourage, or even tend to encourage commercial misconduct, by allowing almost the entire reward from fraud to remain in the hands of the wrongdoer. Such a result directly contradicts well-settled equitable principles long venerated by virtually every court in the land.

CONCLUSION

For these reasons, and to reaffirm the basic principle of commercial morality that one may not profit from fraud, plaintiff respectfully requests that this Court issue its Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit to review that portion of the Court of Appeals' opinion issued April 3, 1978 which affirmed the award of monetary recovery to plaintiff under the claims of fraud and breach of a confidential relationship; and plaintiff further respectfully requests that said portion of said opinion be reversed and modified to provide for hearing and entry of an order compelling the defendant, Sears, Roebuck and Co., to account for and disgorge all profits it wrongfully derived from the use of Roberts' Quick Release invention.

Respectfully submitted,

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APPENDIX

APPENDIX

In the

United States Court of Appeals

For the Seventh Circuit

Nos. 77-1354 and 77-1499

PETER M. ROBERTS,

Plaintiff-Appellant,
Cross-Appellee,

v.

SEARS, ROEBUCK AND COMPANY, a corporation,

Defendant-Appellee,
Cross-Appellant.

Appeal and Cross-Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.
No. 69 C 2573—**George N. Leighton**, *Judge.*

ARGUED FEBRUARY 14, 1978—DECIDED APRIL 3, 1978

Before CASTLE, *Senior Circuit Judge*, SPRECHER and BAUER, *Circuit Judges.*

SPRECHER, *Circuit Judge.* The major issues in this case are whether the district court properly declined to decide the validity of plaintiff's patent in a suit for fraud, breach of a confidential relationship and negligent misrepresentation in defendant's procurement of an assignment of plaintiff's patent rights and whether the district court properly concluded that plaintiff had elected his legal remedies and, therefore, was barred from seeking his equitable remedies of rescission and restitution.

I

This case involves the efforts of one of this nation's largest retail companies, Sears, Roebuck & Co. (Sears), to acquire through deceit the monetary benefits of an invention of a new type of socket wrench created by one of its sales clerks during his off-duty hours. That sales clerk, Peter M. Roberts (Plaintiff), initiated the unfortunate events that led to this appeal in 1963, when at the age of 18 he began work on a ratchet or socket wrench that would permit the easy removal of the sockets from the wrench. He, in fact, designed and constructed a prototype tool with a quick-release feature in it that succeeded in permitting its user to change sockets with one hand. Based on that prototype, plaintiff filed an application for a United States patent. In addition, since he was in the employ of Sears, a company that sold over a million wrenches per year, and since he had only a high school education and no business experience, he decided to show his invention to the manager of the Sears store in Gardner, Massachusetts where he worked. Plaintiff was persuaded to submit formally his invention as a suggestion to Sears. In May 1964, the prototype, along with a completed suggestion form, was sent to Sears' main office in Chicago, Illinois. Plaintiff, thereafter, left Sears' employ when his parents moved to Tennessee.

It was from this point on that Sears' conduct became the basis for the jury's determination that Sears appropriated the value of the plaintiff's invention by fraudulent means. Plaintiff's evidence proved that Sears took steps to ascertain the utility of the invention and that based on the information it acquired, Sears became convinced that the invention was in fact valuable. Sears had two sets of tests run on plaintiff's wrench by its custom manufacturer of wrenches, Moore Drop Forging Co. (Moore). The first test was conducted in July 1964, and it proved that the wrench operated normally and that the quick-release feature did not substantially weaken the structure of the wrench. The second test, conducted in May 1965, showed that actual mechanics liked the quick-release feature. Moore reported the results of these tests to Sears.

Based presumably on these tests, and the expert opinion of its senior tool buyer, Arthur Griesbaum, Sears in March 1965, had Moore design a fine-tooth wrench with the quick-release feature built into it. In addition, at about the same time, Sears put in motion plans to incorporate the quick-release feature into then-existing wrench models that constituted 74.27 percent of all the wrenches Sears sold. Thus, by early 1965, it was clear to Sears that this invention was very useful and probably would be quite profitable.

Sears also received reports from Moore regarding the manufacturing cost of plaintiff's quick-release feature. In the initial prototype built by Moore, the cost was 44 cents per unit. By June of 1965, Sears had received a report indicating that the cost could be reduced to 20 cents per unit. Thus, early in 1965, Sears learned that the feature was relatively inexpensive to manufacture.

Sears also took pains to ascertain the patentability of the quick-release feature. In April 1965, it received outside patent counsel's advice that there was "some basis for limited patentability" (defendant's Exhibit 9). It had previously learned in February 1965 from plaintiff's lawyer, Charles Fay, that he believed the invention was patentable based on a limited search. In addition, Sears was informed in early May 1965, by plaintiff's lawyer that a patent had been issued to plaintiff.[1]

With all of this information either available or soon to be available, Sears contacted plaintiff in January 1965, and began negotiations regarding the purchase of rights to use plaintiff's invention. During these negotiations, conducted with plaintiff's attorney, Sears' lawyer, Leonard Schram, made various representations to plaintiff that serve as the essential basis for plaintiff's complaint. In April 1965, in a letter seeking merely a

[1] We might note here that Mr. Fay contacted Sears before informing plaintiff that a patent had issued. In addition, it was shown that Sears had contacted Mr. Fay during the period of these negotiations about doing some work for it and that he, in fact, did perform a couple of routine matters for Sears, thus raising some doubt about the independence of his advice to plaintiff.

license. Schram first told plaintiff that the invention was not new and that the claims in any patent that would be permitted would be "quite limited" (plaintiff's Exhibit 34). Second, Schram told plaintiff that the cost of the quick-release feature would be 40-50 cents. Third, he told plaintiff the feature would sell only to the extent it would be promoted and thus $10,000 was all that the feature was worth. Finally, and perhaps most ironically, Schram wrote to plaintiff that "[o]nce we have paid off the royalty expense, then we would probably take the amount previously allocated to said expense and use it for promotional expenses *if we desire to maintain sales on the item.*" (Emphasis added).

Based on this letter, plaintiff entered into the agreement on July 29, 1965, which provided for a two cent royalty per unit up to a maximum of $10,000 to be paid in return for a complete *assignment* of all of plaintiff's rights. In fact, for no extra charge, plaintiff's attorney gave Sears all of plaintiff's foreign patent rights. A provision was included in the contract regarding what would happen if Sears failed to sell 50,000 wrenches in a given year, thus reinforcing the impression that the wrenches might not sell very well. Also, a provision was inserted dealing with the contingency that a patent might not be issued, notwithstanding that Sears already knew, and plaintiff did not, that the patent had been granted.

By July, Sears knew that it planned to sell several hundred thousand wrenches with a cost per item increase of only 20 cents, that a patent had issued and that this product in all likelihood would have tremendous appeal with mechanics. Nonetheless, it entered into this agreement both having failed to disclose vital information about the product's appeal and structural utility and having made representations to plaintiff that were either false at the time they were made or became false without disclosure prior to the time of the signing of the contract.

Within days after the signing of the contract, Sears was manufacturing 44,000 of plaintiff's wrenches per week—all with plaintiff's patent number prominently

stamped on them—and within three months, Sears was marketing them as a tremendous breakthrough. Within *nine months*, Sears had sold over 500,000 wrenches and paid plaintiff his maximum royalty thereby acquiring all of plaintiff's rights. Between 1965 and 1975, Sears sold in excess of 19 million wrenches, many at a premium of one to two dollars profit because no competition was able to market a comparable product for several years. To say the least, plaintiff's invention has been a commercial success.

Plaintiff, a Tennessee resident, filed suit against Sears, an Illinois Corporation, in federal district court in December 1969, based on diversity jurisdiction, seeking alternatively return of the patent and restitution or damages for fraud, breach of a confidential relationship and negligent misrepresentation. A jury trial was held from December 20, 1976, until January 18, 1977. During the trial, plaintiff basically proved the facts as presented above. Sears argued that it did not misrepresent any facts to plaintiff, that he had a lawyer and thus there was no confidential relationship and that the success of the wrenches was a function of advertising and the unforseeable boom in do-it-yourself repairs, and thus Sears did not misrepresent the salability of plaintiff's wrenches. The jury was instructed on each of the three counts in plaintiff's complaint and told that it could award plaintiff profits[2] for Counts I and II and could consider a reasonable royalty as a remedy for Count III. The jury apparently believed the plaintiff's evidence because it found Sears guilty on all three counts and

[2] The court instructed the jury on damages for Counts I and II, fraud and breach of a confidential relationship, as follows:

> The award of money damages you make may equal the net profits which you find the defendant gained as a result of its merchandising of wrenches incorporating Plaintiff's quick release invention and idea, minus any expenditures which you find the defendant has proved it incurred which it would have incurred had it not merchandised such wrenches incorporating plaintiff's quick release invention and idea from the time of the contract in question to the present.

(Tr. at 3469).

entered judgment for one million dollars on each count, but the award was not cumulative.

Both parties filed post-trial motions. Sears filed for judgment NOV and plaintiff sought rescission of the contract and restitution. The district court denied both motions holding as to Sears' motion that the jury verdict was in accordance with the evidence and that the damages award was reasonable and holding as to plaintiff's motion that when he permitted the case to go to the jury he had elected his legal remedy and could not later also seek his equitable relief. Plaintiff appealed seeking equitable relief and Sears cross-appealed the one million dollar judgment against it. Since Sears' cross-appeal raises basic issues of liability, we will deal with it first. We will subsequently consider plaintiff's appeal on the issues of the appropriate remedy.

II

Sears' primary argument in its cross-appeal is that the district court erred in not determining conclusively the validity of plaintiff's patent as a precondition to trying plaintiff's claims for fraud, breach of a confidential relationship and misrepresentation. Relying on *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), Sears contends that if the district court had concluded that the patent was invalid, then plaintiff could not have been injured by any fraud Sears may have committed since it paid $10,000 for a "worthless" invention.

Sears' analysis, however, misconceives the Supreme Court's holding in *Lear*. There the Court held that a patent licensee was not estopped to contest the validity of the licensor's patent, and, in fact, was not required to pay the contractually-provided royalties for the license on the invalid patent during the pendency of the litigation. Contrary to Sears' implication, the *Lear* Court did not hold that the potentially invalid patent was worthless and thus the royalties offered in exchange for the right to use that patent would be unjustified. Instead, the Court explicitly recognized that there was significant economic value in the rights to an unchallenged patent. 395 U.S. at 669. In this regard the Court stated

that "the existence of an unchallenged patent may deter others from attempting to compete with the licensee," thereby creating a monopoly in fact if not in law. *Id.*[3]

Other courts have also acknowledged that significant economic value attaches to the rights to an uncontested patent. The Supreme Court recognized this recently in an opinion by Chief Justice Burger: "[E]ven though a discovery may not be patentable, that does not 'destroy the value of the discovery . . . .'" *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 482 (1974). Similarly, this court has held that "[w]hile there are paradoxical aspects of allowing recovery to arise from illegal interference with the sale of something which ultimately was proven to have no sales value, it cannot be said that there was no such value during the period of the presumptive validity of the patent." *Moraine Products v. ICI America, Inc.*, 538 F.2d 134, 149 (7th Cir. 1976).[4]

The facts of this case, by themselves, make abundantly clear both that Sears believed that the uncontested patent had significant economic value as a deterrent to competitors and that the patent, in fact, did serve to deter competitors. Sears had the patent number stamped on all of its wrenches with plaintiff's quick-release feature, which presumably was done for the purpose of scaring off competitors. Also, Sears' competitors did not enter this lucrative market for several years

[3] This valuable benefit was available even in the case of a non-exclusive license because the royalty charged to the licensee "serves as a barrier to entry." 395 U.S. 669 n.16.

[4] The court subsequently defined more specifically the nature of the economic value created by the uncontested patent during the period of its presumptive validity:

> While Moraine was the holder of a presumptively valid patent, it could legally entertain the expectation, unless it had in some manner deprived itself thereof, of receiving royalties from licensing arrangements which in final analysis are agreements in which the licensee is purchasing the right to be free from infringement litigation, which Moraine did have to sell during the period of validity.

538 F.2d at 149.

after it became clear that this product had genuine sales appeal, which can only be explained by the existence of the patent.

It is at least somewhat disingenuous for Sears to argue before this court that plaintiff's patent was valueless when it made every effort in its marketing to exploit the economic value of the uncontested patent, received the benefits of a factual monopoly for several years because of that uncontested patent and to this day has refused to return the patent rights to plaintiff in return for the $10,000 originally paid to acquire these "valueless" rights. We, therefore, have little difficulty finding that Sears' deception caused plaintiff to be injured in fact.

The issue remains whether the public interest, recognized in *Lear*, in having patent validity challenged is of such significance that we should extend *Lear* to cover this case. The *Lear* Court held that a licensee should be permitted to contest the validity of a licensor's patent because "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery." 395 U.S. at 670. Thus, the Court feared that if licensees "are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." *Id.*[5]

We believe that the reasoning in *Lear* does not extend to this case for two reasons. First, we deal here with a

[5] The policy against deterring licensees from attacking the validity of the licensor's patent also justified not requiring the licensee to pay royalties under the license agreement during the litigation. The Court reasoned:

> Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. . . . [T]he cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts.

395 U.S. at 673.

complete assignment of plaintiff's patent rights to Sears. *See generally Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F. Supp. 346, 352 (D.S.C. 1975), *rev'd on other grounds*, 540 F.2d 1235 (4th Cir. 1976); Arnold & Goldstein, *Life Under Lear*, 48 TEXAS L. REV. 1235, 1244 (1970). Thus, the primary evil that the Court in *Lear* sought to end—that the public might have to pay tribute to a "would-be monopolist"—is completely irrelevant to this case. Plaintiff has no legal basis for exacting any "tribute" until the patent rights are returned to him. At that point in time, the patent's validity can be tested either in an infringement suit or after plaintiff enters into a licensing agreement. The public's interest would not be injured by our decision to bar Sears from contesting this patent at this time.

Second, and perhaps even more fundamentally, the Court's analysis in *Lear* initiated with an assessment of "the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of *good faith*." 395 U.S. at 670 (emphasis added). Only after the Court satisfied itself that the equities were balanced on each side did it proceed to a consideration of the needs of patent law and the public interest. Sears' actions in this matter have violated completely the basic assumption in *Lear* that there was good faith in the dealings between the parties. There is no balance of equities between Sears and plaintiff in their contractual relations. For this court to employ the public interest in patent law to sanction Sears' conduct is unjustifiable. Certainly nothing in patent law requires this court to permit fraud to go unremedied. *Cf. Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 487 (1974) (nothing in patent law discourages states from preventing industrial espionage). We, therefore, hold that the district court properly concluded that *Lear, Inc. v. Adkins*, is no bar to plaintiff's recovery.

III

Having determined that the district court properly declined to decide the validity of the plaintiff's patent, we can readily dispose of Sears' second contention in its

cross-appeal. Sears argues that the district court erred in not permitting the introduction of certain evidence dealing with the prior art surrounding plaintiff's invention. Sears, however, attempted to introduce all of the prior art evidence at issue (defendant's Exhibits 25, 26, 29, 33, 34, 39, 40, 41, 42 and 43) for the purpose of proving that the patent was invalid. Since that contention was irrelevant to the case, it seems, *a fortiori*, that the materials introduced to prove it must also be deemed irrelevant to this case.

Sears, however, argues that the district court recognized that patent validity was a relevant issue. By citing materials out of context, Sears has severely mischaracterized the district court's analysis. During the trial, the district court properly recognized that some evidence of prior art was relevant for the issue of Sears' intent. Prior art was relevant to the limited extent that if Sears could prove it knew about the prior art at the time it was negotiating with plaintiff then the jury might conclude that Sears had not intentionally deceived plaintiff about the novelty and value of his invention.

The best example of this reasoning by the district court was with regard to the Carpenter patent (defendant's Exhibit 29). In considering its relevance the court asked when Sears had become aware of the patent. Counsel for Sears stated that the Carpenter patent was not discovered until 1971, after the law suit was initiated (Tr. at 2409). Since it was clear that the Carpenter patent had not entered into Sears' assessment of the value of plaintiff's invention when it made its representations to plaintiff, the district court properly concluded the patent was irrelevant and refused to admit it into evidence (Tr. at 2425). We have examined the record concerning the other prior art evidence that was not admitted and about which Sears complains, and we conclude that the district court properly applied its rule of limited relevance and thereby correctly excluded all of it.

IV

Sears' final argument in its cross-appeal is that plaintiff failed to prove the existence of a confidential relationship between himself and Sears. In assessing that argument, we recognize at the outset that there are no hard and fast rules for determining whether a confidential relationship exists. *See* G. BOGERT, THE LAW OF TRUSTS AND TRUSTEES § 482 (2d ed. 1960). The trier of fact must examine all of the circumstances surrounding the relationship between the parties and determine whether "one person reposes trust and confidence in another who thereby gains a resulting influence and superiority over the first." *Kester v. Crilly*, 405 Ill. 425, 91 N.E.2d 419, 423 (1950).

Various factors have been recognized judicially as being of particular relevance to that inquiry. Among them are disparity of age, education and business experience between the parties. *Melish v. Vogel*, 35 Ill. App. 3d 125, 343 N.E.2d 17, 26 (1975). Additional factors are the existence of an employment relationship and the exchange of confidential information from one party to the other. *See Yamins v. Zeitz*, 322 Mass. 268, 76 N.E.2d 769, 772 (1948). All five of those factors are present in this case. In addition, one of Sears' witnesses admitted that the company expected plaintiff to "believe" and to "rely" on various representations that Sears made to him (Tr. at 1981). Obviously, this question is best left to the trier of fact, and this court under any circumstances would hesitate to disturb the jury's findings. That hesitation is especially strong here where so many factors suggest that a confidential relationship in fact existed.

Sears argues, however, that there are two factors involved here that eliminate any possible confidential relationship. They are that plaintiff never proved that Sears had knowledge of the confidential relationship upon which plaintiff was relying and that plaintiff retained counsel to guide him, and therefore, did not rely on Sears. We find neither factor sufficient to justify overturning the jury's verdict on this issue.

Sears cites several cases that emphasize that a confidential relationship cannot be thrust upon an unknowing party. *See Broomfield v. Kosow*, 349 Mass. 749, 212 N.E.2d 556 (1965); *Yamins v. Zeitz, supra; Comstock v. Livingston*, 210 Mass. 581, 97 N.E. 106 (1912). That proposition, however, does not lead to the conclusion that a plaintiff must demonstrate by direct evidence that the defendant actually was aware of the confidential relationship. All that must be proved is that the parties engaged in activities under circumstances that created a confidential relationship and that defendant breached that relationship.

In the cases cited by Sears, all of the circumstances surrounding the transactions that were being attacked suggested an arms-length arrangement, and thus the plaintiffs in those cases attempted to thrust a confidential relationship on the unknowing defendants after the fact. Here, Sears' knowledge is circumstantially proved by all of the facts surrounding its dealings with plaintiff. In addition, as suggested above, there was direct testimony to the effect that Sears expected plaintiff to rely on its representations.[6]

With regard to the existence of counsel representing plaintiff, we conclude that that is merely one factor to be considered along with all of the others. In fact, once plaintiff established the existence of a confidential relationship through proof of the five factors previously discussed, the burden was on Sears to prove that plaintiff had competent and independent advice. *See Jones v. Washington*, 412 Ill. 436, 107 N.E.2d 672, 674 (1952). The judge instructed the jury on this issue (Tr. at 3467) and it obviously rejected Sears' argument. There is no basis for this court to disturb that determination. Thus, we conclude that a jury could reasonably find that a confidential relationship existed between the parties and

[6] Sears also argues that the district court failed to instruct the jury on the issue of Sears' knowledge of the confidential relationship. In view of our holding that knowledge does not have to be proved as an element of the tort, we find no basis for requiring any specific mention of this factor. In our view, the district court's instructions on the confidential relationship issue were proper.

that Sears breached its duties created by that relationship.

For all of the above-stated reasons, we find no merit to any of the issues raised in Sears' cross-appeal. We, therefore, affirm the district court's judgment of liability against Sears on all three counts of plaintiff's complaint.

V

Plaintiff, in his appeal, seeks review of the district court's decision that he elected his legal remedies by taking the case to the jury, and therefore, is barred from pursuing his equitable remedies of rescission and restitution. Plaintiff argues that the district court, as a court of equity, should have accepted the jury's liability determination, but should have disregarded its damages verdict and instead should have granted rescission and restitution.[7]

Before considering the substance of the doctrine of election of remedies, we should determine what law, state or federal, should control our decision. Sears relies almost exclusively on Illinois decisions in arguing that after plaintiff takes his case to the jury in a court of law he cannot thereafter seek rescission of the contract from a court of equity. We, however, conclude that federal courts are not bound by the Illinois election of remedies doctrine.

The choice of law issue in diversity cases, where no Federal Rule of Civil Procedure clearly controls, is

[7] Plaintiff asks this court to leave undisturbed his one million dollar judgment in Count III, negligent misrepresentation, because that is an action at law and therefore was properly given to and decided by the jury.

As to Counts I and II, plaintiff claims that the evidence proves that Sears' profits on the sale of quick-release wrenches was in excess of 40 million dollars. Sears argues that that figure is based on a misinterpretation of Sears' sales techniques. Given our disposition of this case, we need not resolve this dispute, although we do agree with the district court that the jury's damage award was not unreasonable.

governed by the Rules of Decision Act, 28 U.S.C. § 1652.[8] *See generally* Redish & Phillips, *Erie and the Rules of Decision Act: In Search of the Appropriate Dilemma*, 91 HARV. L. REV. 356, 357-58 (1977); Ely, *The Irrepressible Myth of Erie*, 87 HARV. L. REV. 693, 697-700 (1974). In interpreting that Act, at least one circuit has recognized that where a state procedural rule is derived from a judicial system that is fundamentally inconsistent with the federal judicial system, then the state rule need not be slavishly adhered to by a federal district court. *Atkins v. Schmutz Mfg. Co.*, 435 F.2d 527 (4th Cir. 1970), *cert. denied*, 402 U.S. 932 (1971). *See also* Redish & Phillips, *supra* at 391 n.189.

Under the Illinois cases cited by Sears, a plaintiff had to elect his remedies at the time of filing suit because Illinois had retained separate courts of equity and courts of law. *See, e.g., Carr v. Arnold*, 239 Ill. 37, 87 N.E.2d 870 (1909). In federal courts, however, the distinction between law and equity has long been abolished. FED. R. CIV. P. 2. It would be anomalous to follow a state rule created under a judicial system so at odds with that of the federal system. In fact, it might be argued that such a holding would violate Rule 2, in which case state law, of course, would be disregarded. *See Hanna v. Plumer*, 380 U.S. 460, 469-74 (1965). We, therefore, feel no compunction in declining to follow Illinois law on this issue.[9]

[8] The Act provides:

> The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the Courts of the United States, in cases where they apply.

28 U.S.C. § 1652.

[9] This result accords with the approach recently suggested in Redish & Phillips, *supra*. The authors in that article suggest that the best approach to Rules of Decision Act cases is to examine the policy underlying the state rule to determine if it affects primary conduct, is intended to benefit one class of litigants over another or is merely the state's evaluation of the most efficient way to handle its docket. *Id.* at 394-96. The Illinois rule separating the courts would appear to fall within

(Footnote continued on following page)

Having determined that the district court is not bound by the rigid requirements of Illinois law on election of remedies, there remains the question whether plaintiff can still pursue his equitable remedies under the facts of this case. We conclude that the district court correctly decided not to disturb the jury's monetary award, but that the court erred in not considering whether rescission of the contract and return of plaintiff's patent were appropriate.

The general rule as to when an election is necessary is that "'a certain state of facts relied on as the basis of a certain remedy is inconsistent with, and repugnant to, another certain state of facts relied on as the basis of another remedy.'" *Prudential Oil Corp. v. Phillips Petroleum Co.*, 418 F. Supp. 254, 257 (S.D.N.Y. 1975). Here, the jury was instructed that plaintiff could receive profits for Counts I and II, fraud and breach of a confidential relationship.[10] Apparently dissatisfied with the size of the jury verdict, plaintiff sought in a post-trial motion to have the court reconsider the evidence and award relief based on essentially the same standard the jury used. To have granted plaintiff's request would have been completely unfair to Sears.[11] It might have been better for the court to require the plaintiff to elect his remedy expressly prior to instructing the jury, but plaintiff did not object to the court's procedure, and therefore, must have been satisfied to let the jury determine the appropriate award. Having let the case go to

[9] *continued*
the third category. In such a situation, the authors conclude, "The federal diversity court should be permitted to adopt or reject such rules since, as noted previously, it retains some interest in regulating its own internal procedures." *Id.* at 395. We agree with that conclusion.

[10] *See* note 2 *supra*.

[11] The district court reasoned that such an approach would create the type of res judicata problems mentioned in our earlier decision in *Federal Savings & Loan Ins. Corp. v. American Nat'l Bank & Trust Co.*, 392 F.2d 906 (7th Cir. 1968). While we do not perceive any basis for a claim of res judicata or even a double recovery problem, we do believe it would have been unfair to disturb the jury's award, and, therefore, agree with the district court's decision not to do so.

the jury without getting the issue clarified, plaintiff should not be heard to complain about the outcome of that procedure.

With regard to an election between the profits awarded by the jury and return of the patent based on rescission, however, we see no basis for invoking the election of remedies doctrine. Based on the jury instruction, plaintiff will receive one million dollars as the measure of *past* profits earned by Sears up to the time of trial. That award, however, is not inconsistent with return of the patent so that plaintiff can receive the *future* benefits of the patent that Sears fraudulently acquired. There will be neither a double recovery nor a factual inconsistency between these remedies. *See Prudential Oil Corp., supra* at 257; G. BOGERT, THE LAW OF TRUSTS AND TRUSTEES § 946 (2d ed. 1962). Therefore, we conclude that going to the jury under a past profits instruction did not bar plaintiff from seeking rescission and thereby possibly recovering his patent. Whether rescission is appropriate, however, is an issue that should be decided in the first instance by the district court.

For the reasons stated above, we affirm the district court's judgment against Sears on all three counts in plaintiff's complaint and the court's decision not to alter plaintiff's monetary award, but reverse the court's determination that it lacked the power to award rescission and remand to the district court for a determination of whether rescission is appropriate under the facts of this case.

AFFIRMED IN PART; REVERSED IN PART; and REMANDED

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit

Supreme Court, U. S.
FILED
AUG 2 1978
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No. 78-29

PETER M. ROBERTS,
Plaintiff-Petitioner,

vs.

SEARS, ROEBUCK AND CO.,
Defendant-Respondent.

BRIEF OF SEARS, ROEBUCK AND CO. IN OPPOSITION TO THE CROSS-PETITION FOR WRIT OF CERTIORARI FILED BY PETER M. ROBERTS.

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BRIEF OF SEARS, ROEBUCK AND CO. IN OPPOSITION TO THE CROSS-PETITION FOR WRIT OF CERTIORARI FILED BY PETER M. ROBERTS.

INTRODUCTION.

In its petition for a writ of certiorari, defendant has set forth the reasons why the verdict awarded by the jury cannot stand. In an obvious effort to create a smoke screen and obscure the crucial issues raised by defendant's petition, plaintiff has filed what he labels a "conditional" cross petition for a writ of certiorari. By so doing and by raising frivolous issues, plaintiff no doubt hopes this Court will be deterred from defendant's petition. However, the speciousness and transparency of plaintiff's position is clear, not only from a reading of his petition, but also from the very fact of his request that it be considered only if defendant's petition is accepted by this Court.[1]

1. Defendant refers to the footnote of plaintiff's cross petition at page 3.

In his so-called "conditional" cross petition, plaintiff asks this Court to increase a $1,000,000 verdict which a jury found and the Court of Appeals subsequently agreed represented defendant's profits from a patent which, as can be seen from defendant's petition for a writ of certiorari is invalid.[2] Plaintiff asks that this verdict be increased without a new trial. In other words, plaintiff asks for an additur, a procedure which would clearly violate defendant's constitutional right to a jury trial.

Plaintiff's jurisdictional statement and statement of the case at pages 1-10 of his cross petition are no more than a mixed bag of innuendo, conclusions, arguments and "facts" unsupported by and contrary to the record. For example, plaintiff asserts that the evidence unequivocally disclosed defendant's profits to be, and required a jury verdict of, $44,000,000. This argument is directly contrary to the record which includes the testimony of plaintiff's own witnesses who conceded they did not know the selling price of defendant's wrenches (T 1410, 1677, 1679-1680, 1682, 1683). They therefore could not appropriately determine defendant's net incremental profit on the wrench.

So too, plaintiff argues that the jury was improperly instructed on damages and that for this reason did not award him defendant's profits. This argument is also misplaced. The instruction that plaintiff complains of was tendered by him and, in any event, clearly required an award of and the Court of Appeals found that the jury awarded him defendant's profits.

2. Defendant of course submits that it could not have profited at all from the use of this invalid patent as a matter of law.

ARGUMENT.

I.

An Increase in the Jury Award Will Unconstitutionally Deprive Defendant of Its Right to a Jury Trial.

Defendant was entitled to a jury trial under the Seventh Amendment to the United States Constitution. Equally important, plaintiff, throughout every stage of this lawsuit, insisted on a jury trial. Now, apparently dissatisfied with the jury's verdict, plaintiff asks this Court, as he did the Court of Appeals, to vacate it and, without a new trial, substitute a higher verdict.[3] The trial court recognized that it was without power to do so and the Court of Appeals agreed. The Court of Appeals also ruled that to increase the verdict would be completely unfair to defendant. 573 F. 2d at 895.

More importantly, any increase in the jury verdict granted by this or any court would deprive the defendant of its right to a trial by jury under the United States Constitution. It is a basic Constitutional maxim that no jury award may be increased by a trial or reviewing court without the joint consent of plaintiff and defendant. Thus, in the landmark decision of *Dimick* v. *Schiedt*, 293 U. S. 474, 79 L. Ed. 603 (1935), this Court ruled that an increase in a jury verdict with the consent of the defendant alone violated the plaintiff's constitutional rights, holding:

> But where the verdict is too small, an increase by the court is a bald addition of something which in no sense can be said to be included in the verdict. *When, therefore, the trial court here found that the damages awarded by the jury were so inadequate as to entitle plaintiff to a new trial, how can it be held, with any semblance of reason, that the court, with the consent of the defendant only, may, by assessing an additional amount of damages, bring the constitutional right of the plaintiff to a jury trial to an end*

3. Plaintiff does not now ask for, and, indeed, in his post-trial motion and again in his brief before the Court of Appeals expressly stated that he does not want a new trial.

> *in respect of a matter of fact which no jury has ever passed upon either explicitly or by implication? To so hold is obviously to compel the plaintiff to forego his constitutional right to the verdict of a jury and accept "an assessment partly made by a jury which has acted improperly, and partly by a tribunal which has no power to assess."* 293 U. S. at 486, 487 (emphasis added).

This rule has repeatedly been applied in favor of a defendant as well. In *DePinto* v. *Provident Security Life Insurance Co.*, 323 F. 2d 826 (9 Cir. 1963), *cert. denied sub nom. Gorsuch* v. *DePinto*, 376 U. S. 350 (1964), where, as here, the jury decided damages in a case that involved a mixture of legal and equitable causes of action, the court of appeals reversed a trial court's increase of a jury award when it ruled:

> What the trial court did in the instant case was not additur in the technical sense. There was no motion by plaintiff for a new trial, the trial court did not grant such a motion unless defendants consented to the awards which were actually entered, the defendants did not consent to such awards, and plaintiff is not the party who is complaining about what the court did. *But, insofar as the Seventh Amendment right to a trial is concerned, the reasoning which forbids additur just as clearly forbids an unconditional award of damages in excess of a jury verdict in an amount which, although agreeable to plaintiff, is not consented to by defendant.*
>
> In the case of additur, the Constitutional right of the plaintiff to a jury trial is brought to an end, while in our case *the Constitutional right of the defendant is likewise terminated.* What the court said, in Dimick, concerning such an impairment of a plaintiff's right to a jury trial is equally applicable where it is the defendant's right which is impaired.
>
> We therefore hold that the trial court was *without power* to enlarge the jury awards against [the defendants], or to make an award against [the defendants] who had escaped any jury award. 323 F. 2d at 838 (footnote omitted, emphasis added).

Again, in *United Airlines Inc.* v. *Wiener*, 335 F. 2d 379 (9 Cir. 1964), the Court of Appeals ruled:

> Strictly speaking, additur is not involved here since United's consent to the increase was neither requested nor given. *A fortiorari*, however, the principles announced in Dimick have pertinence here [citations omitted].
>
> * * * * *
>
> The teachings of the Dimick and Walker cases seem to us to include the following: *an increase by a court of the jury's assessment of damages which is a bald addition of something which in no sense can be said to be included in the verdict is violative of the Seventh Amendment. . . .* 335 F. 2d at 406, 407 (emphasis added).

In *United States* v. *93.970 Acres of Land*, 258 F. 2d 17 (7 Cir. 1958), *rev'd on other grounds*, 360 U. S. 320 (1959), the Seventh Circuit ruled that the trial court did not have the power to increase a jury award, even where defendant had *no* constitutional right to a jury trial:

> We agree that parties to a condemnation suit have no constitutional guarantee to a jury trial but, even so, it does not follow that the Court, absent consent of the parties, has the authority to increase a jury verdict by additur or decrease it by remittitur. 258 F. 2d at 31.

See also, Milprint, Inc. v. *Donaldson Chocolate Co.*, 222 F. 2d 898 (8 Cir. 1955); *Southern Farm Bureau Casualty Ins. Co.* v. *Palmer*, 263 F. 2d 206 (5 Cir. 1959); *New Orleans and Northeastern R. R. Co.* v. *Hewett Oil Co.*, 341 F. 2d 406 (5 Cir. 1965); *Silverman* v. *Travelers Insurance Co.*, 277 F. 2d 257 (5 Cir. 1960).

The Illinois decisions also follow this basic doctrine and have applied the rule even where a jury award is lower than a stipulated amount of damages. Thus, in *Paul Harris Furniture Co.* v. *Morse*, 7 Ill. App. 2d 452, 130 N. E. 2d 16 (1955), *rev'd on other grounds*, 10 Ill. 2d 28, 139 N. E. 2d 275 (1956), the Illinois Appellate Court ruled:

We believe if the judgments as prayed for in their respective motions were entered there would be in the language of Hughes v. Bandy, 404 Ill. 74 at page 80:

> *"A wrongful exercise of judicial power and authority which, in effect, deprived the defendant of a right of trial by jury."*
>
> . . . We further held that this was true even though the only relief sought by the motion was judgment for a *stipulated amount of damages* which was greatly in excess of the amount returned by the jury. This decision was affirmed by the Supreme Court in Hughes v. Bandy, supra. We believe this decision applicable here. . . . Plaintiffs therefore cannot attack the verdict by a motion for judgment notwithstanding even if the attack is confined to the amount of damages allowed and *that amount was stipulated as plaintiffs assume.* (*McCaskill* v. *Quintano,* 350 Ill. App. 374.) 7 Ill. App. 2d at 472-473 (emphasis added).

Again, in *McCaskill* v. *Quintano,* 350 Ill. App. 374, 113 N. E. 2d 72 (1953), the Illinois Appellate Court ruled that the trial court did not have the power to enter a judgment for an amount larger than the jury awarded when it ruled:

> The answer of defendant set up a complete defense to the plaintiff's claim, so that the liability of the defendant, if there was any evidence to support it, became a question of fact for the jury. Under such circumstances *the court had no power,* upon the motion for judgment *non obstante veredicto,* to enter the judgment for a larger amount.
>
> The identical question here presented was decided adversely to plaintiff in *Hughes* v. *Bandy,* 336 Ill. App. 472, affirmed in 404 Ill. 74. In the case cited liability was denied, but the damages, amounting to $1,218.25, were undisputed. The verdict returned was $615. *The court held that notwithstanding the fact that the damages were not in dispute, the court lacked the power upon such a motion to enter a judgment for the larger amount, and that the wrongful exercise of the judicial authority in effect deprived the defendant of the right of trial by jury.* The court further held that since plaintiff did not see fit to make a motion for new trial . . ., he is deemed to have waived the right to apply for a new trial and in consequence is barred from challenging the amount of the jury's verdict. 350 Ill. App. at 377-378 (emphasis added).

Also, in *American Appraisal Co.* v. *Pio,* 246 Ill. App. 467 (1927), the Appellate Court ruled again that the courts were powerless to alter a jury verdict:

> Plaintiff insists that the verdict should have been for the full amount of its claim, $713.53, and requested the trial judge to change the verdict to that amount, which the court refused to do, *as he had no power to change the verdict in any respect,* except to set it aside and award a new trial. Now Plaintiff asks this court to enter a judgment here for $713.53. This we have no power to do. We might reverse the judgment and remand the cause for a new trial, but plaintiff does not ask us so to do, and has not assigned any cross errors. 246 Ill. App. at 471 (emphasis added).

It is clear from the decisions of this and all other courts which have passed on the subject that the courts below were, as this Court is, without power to increase the jury award of $1,000,000, and that to grant the relief "conditionally" sought by plaintiff would clearly deprive defendant of its rights under the Seventh Amendment to the United States Constitution. Plaintiff cites no case which has held to the contrary, and defendant knows of no such decision. For this reason alone plaintiff's request for an increase in the jury award must fail.

II.

The Jury Award Cannot Be Increased in This Case Because Plaintiff Is Not Entitled to More Damages Under the Evidence.

Even if plaintiff did request a new trial, and he has not, or this Court were somehow empowered to increase the jury verdict without a new trial, which it is not, there would be no merit to plaintiff's position. Defendant's profit on the wrench was certainly not, as plaintiff asserts, $44,000,000. Indeed, its profit did not even approach the $1,000,000 jury award.

Defendant's net profit, of course, can only be determined from the selling prices of the wrench. In some instances, its wrenches were sold as individual items through defendant's catalogs in which the selling price was disclosed. One of plaintiff's witnesses developed a specious $44,000,000 profit figure by assuming, contrary to the facts, that *all* defendant's quick release wrenches were sold at the stated catalog price (T. 1653, 1675-1676) and by merely multiplying the number of wrenches sold by the difference between the manufacturing cost and the occasional catalog selling price (T. 1657-1670, 1676-1677). However, he, as well as other witnesses, readily conceded that he did not know how many of the wrenches were actually sold at the stated catalog selling price, how many wrenches were sold at reduced sale or promotional prices in retail stores, or how many of them were included in tool sets (T. 1410, 1677, 1679-1680, 1682, 1683). Plaintiff's witnesses further conceded, and indeed it is undisputed, that each of the foregoing factors would substantially reduce the profit margin on the wrenches, thus rendering the $44,000,000 figure entirely speculative (T. 1677-1679).

The uncontroverted and unrebutted evidence reveals that only a bare minimum number of wrenches were sold at the catalog price. Indeed, more than two-thirds of the wrenches were included in tool sets that contained hundreds of tools (T. 1782-1783). Each of these tool sets contained only one or two quick release wrenches (T. 1411, 1687-1688, 1781, 1782) and plaintiff's own witness conceded that it is not possible to allocate any specific profit figure to a wrench when it is sold in a tool set. Indeed, the sets themselves are frequently sold at drastically reduced prices (T. 1409-1410, 1412-1413, 1528, 1683). Moreover, a substantial number of those remaining wrenches sold individually were not sold at the catalog price, but rather at drastically reduced promotional or sale prices (T. 1902). Plaintiff's own witnesses, including the witness who developed the speculative $44,000,000 profit figure, admitted that they did not know the number and were unable to determine the

selling price of the foregoing wrenches (T. 1409-1410, 1412-1413, 1677, 1679-1680, 1682, 1683). Obviously, plaintiff's $44,000,000 demand is a product of utter speculation. The jury was instructed that its verdict may equal defendant's net profit on the sale of the wrenches (A. 485). It returned a verdict of $1,000,000. That verdict cannot be increased by this Court.

Moreover, the jury was instructed to consider the value of plaintiff's patent in arriving at its verdict (A. 485). However, as demonstrated in defendant's petition for a writ of certiorari, plaintiff's patent is invalid and therefore valueless as a matter of law. Even if, contrary to the fact, it could be said that plaintiff's patent is valid, it is so limited in scope and was so easily avoided by competitors (DX 23, 30, 31, 44, 45, 46) that the verdict was not too low, but excessive.

III.

Plaintiff Is Unable to Challenge the Jury Instruction on Damages for Not Only Did He Not Object to This Instruction, He Tendered It Himself.

Plaintiff's additional argument that the jury verdict was based upon an erroneous damage instruction is clearly unfounded. Not only did plaintiff fail to object to the allegedly improper instruction, he himself tendered the instruction:

> MR. J. DAVIDSON: *I think we would be happy to tender that as modified,* if I might just read it for the record to make sure we have it correct.
>
> "If you find in favor of the Plaintiff on either the first or second claim, then, one of the elements of the money damages to be considered by you may be the net value to the Defendant, the profits or benefits, if derived from the use of Plaintiff's invention and idea. The award of money damages you may make may equal the net profits—" —then continuing on.
>
> THE COURT: That leaves it to the jury to decide.

MR. J. DAVIDSON: *We would be happy to modify it.* (T. 3196, emphasis added.)

It is basic law that one may not attack his own instruction on appeal. *See, e.g., Herman* v. *Hess Oil Virgin Islands Corp.*, 524 F. 2d 767 (3 Cir., 1975); *Scott* v. *Central Commercial Co.*, 272 F. 2d 781 (2 Cir. 1959); *Tendler* v. *Jaffe*, 203 F. 2d 14 (D. C. Cir. 1952), *cert. denied*, 346 U. S. 817 (1953); *Gardner* v. *Darling Stores Corp.*, 138 F. Supp. 160 (S. D. N. Y. 1956), *aff'd*, 242 F. 2d 3 (2 Cir. 1957). Moreover, Federal Rule of Civil Procedure 51 provides that no party may appeal from an instruction unless he objects to the instruction "stating distinctly the matter to which he objects and the grounds of his objection" before the jury retires. Even if it was not so clear that plaintiff had tendered the instruction, he obviously failed to object and to provide the basis for his objection as required by Federal Rule 51. For these reasons too, plaintiff's cross-petition must be denied.

CONCLUSION.

For each of the foregoing reasons plaintiff's conditional cross-petition for a writ of certiorari will not lie and should be denied.

Respectfully submitted,

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Supreme Court, U. S.
FILED
AUG 24 1978
MICHAEL RODAK, JR., CLERK

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ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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In The

Supreme Court of the United States

October Term, 1978

No. 78-29

PETER M. ROBERTS,

Plaintiff-Petitioner,

vs.

SEARS, ROEBUCK & CO., a corporation,

Defendant-Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

PLAINTIFF'S REPLY BRIEF

I.

SEARS MISCONCEIVES THE NATURE OF THIS ACTION FOR RESTITUTION IN POSTULATING ITS "ADDITUR" ARGUMENT.

Once the basic nature of this action for rescission and restitution is understood and carefully adhered to as the correct focal point of discussion, Sears' "additur" argument which rests on a mischaracterization of this case as simply an action for damages, can and should be put aside. Plaintiff's complaint and amendments have consistently and correctly asserted his theory that

because of Sears' gross misconduct, plaintiff has the right to ask the court to rescind the fraudulently induced agreement, to obtain restitution and the return of his property and to deprive Sears of its unjust enrichment. Contrary to Sears' effort at misdirection, this case is not now and has never been simply a claim for damages, the premise on which Sears asserts its dual diversionary argument that the trial court has no power to grant an "additur" and that the evidence concerning "damages" only supports the $1 million verdict the jury reached.

Sears knows this is not simply an action for damages; it affirmatively argued so in the trial court. In speaking of the "gravamen of Plaintiff's Complaint," Sears contended: "Plaintiff seeks rescission of the contract and upon such rescission, injunctive relief, an accounting and damages." Sears then argued: "The case before this Court is *not an action at law for damages* . . . It is a suit to rescind a fully executed contract. . . ." Later in the same Memorandum, Sears reiterated that ". . . the basic action here is for recission of a contract."[1]

Now, however, to prevent the prospect of having to disgorge the unjustly obtained profits it has so far been able to retain because the jury assessment of those profits was performed according to an incorrect instruction of law, Sears cites only damage cases for the incontrovertible proposition that a court cannot increase a jury award in a damage case. However, because plaintiff's claim is one for rescission, which affords plaintiff the remedies of the return of his property and the unjust enrichment Sears obtained, Sears' entire

[1] (Sears) Memorandum In Opposition To Plaintiff's Motion For Jury Trial And In Opposition To His Motion To Bar Trial Of The Validity Of His Patent, at 2, 4, and 8, filed April 9, 1973.

discussion of "additur" to the jury verdict is simply inapposite. Plaintiff does not now and never has asked the court to increase the size of the jury verdict. All of the additur cases cited in Sears' brief in opposition are actions at law seeking only money damages. Thus, *Dimick v. Schiedt*, 293 U.S. 474 (1935) involved personal injuries arising from an auto collision; *DePinto v. Provident Sec. Life Ins. Co.*, 323 F. 2d 826 (9th Cir. 1963) concerned damages for fraud in obtaining funds from a corporation; *United Air Lines, Inc. v. Weiner*, 335 F. 2d 379 (9th Cir. 1974) and *Silverman v. Travelers Insurance Co.*, 277 F. 2d 257 (5th Cir. 1960) involved damages for wrongful death; *Milprint, Inc. v. Donaldson Choc. Co.*, 222 F. 2d 898 (8th Cir. 1955) involved damages for the value of candy wrappers; *New Orleans & N.E. R.R. Co. v. Hewett Oil Co.*, 341 F. 2d 406 (5th Cir. 1965) involved damages for property damage; *Paul Harris Furniture Co. v. Morse*, 7 Ill. App. 2d 452, *rev'd* 10 Ill. 2d 28 (1956) involved damages arising from the work of an independent contractor; *McCaskill v. Quintano*, 350 Ill. App. 374 (1953) involved damages for overcharges under the Rent Control Act; and *American Appraisal Co. v. Pio*, 246 Ill. App. 467 (1927) involved damages to recover the balance due on a contract. In none of these cases, except *DePinto*, was there even a claim of unjust enrichment, and in *DePinto* that issue was not involved in the case on appeal.

As this Court taught in *Ross v. Bernhard*, 396 U.S. 531 (1970), *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959), and *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962), a party's entitlement to have a jury determine disputed questions of fact in a combined legal and equitable action must be jealously guarded. Here, under proper instructions, the jury found Sears guilty of fraud and breach of a confidential relationship, the two

theories upon which plaintiff is entitled to obtain rescission and restitution. Had the jury been properly instructed, it could also have determined the dollar amount of Sears' unjustly obtained profits. However, only the court, sitting as chancellor in this combined action, had the power to effectuate the jury determination of fraud and breach of a confidential relationship by entering an order depriving Sears of the amount of unjust enrichment which either the court or jury could determine. Had the court given a correct instruction, it would have then been in a position to order restitution of the amount of unjustly obtained profits determined by the jury.

Far from being a damage case involving an "additur" issue, plaintiff's request at trial by means of the instruction plaintiff tendered, his request by post trial motion, his request in the Court of Appeals, and his request now on Petition For Writ Of Certiorari has been to effectuate the jury finding of fraud and breach of a confidential relationship by having the court order disgorgement of Sears' unjustly obtained profits. The proper commitment to the jury of certain but not all issues in a combined case was demonstrated in the first-cited opinion of Chief Judge Edelstein in *Prudential Oil Corp. v. Phillips Petroleum Co.*, 392 F. Supp. 1018 (S.D. N.Y. 1975), 398 F. Supp. 233 (S.D. N.Y. 1975), 418 F. Supp. 254 (S.D. N.Y. 1975), 418 F. Supp. 258 (S.D. N.Y. 1976), rev'd on other grounds, 546 F. 2d 469 (2d Cir. 1976), in which the court held that misappropriation claims were properly triable to a jury, relying upon *Beacon Theatres* and *Ross*, because misappropriation is a legal claim which supports the right to jury trial, even though equitable issues exist and may remain to be tried. In another opinion in the same case [418 F. Supp. 254 (S.D. N.Y. 1975)], Judge Brieant discussed the

remedy to be afforded, saying: "However this case may be presented to the jury upon plaintiff's contract, quasi-contract and tort theories, relief, whether at law or in equity, will issue only once." In this case, the relief that Peter Roberts sought at trial was entirely consistent with Judge Brieant's observation in *Prudential*, that there should be only one entry of judgment affording one form of relief. The point simply is that it is entirely permissible, if not required, that the court enter such orders as will fully effectuate the factual findings of the jury and afford the complete remedy which the law allows.

As a matter of procedure, what plaintiff respectfully requests should have occurred in the District Court, and which should now be ordered to effectuate the correct result of the jury's findings of fraud and breach of a confidential relationship, is an order remanding this cause to the District Court to determine Sears' unjustly obtained profits and to order disgorgement of those profits from Sears to the plaintiff under the first two of plaintiff's three theories, being fraud and breach of a confidential relationship. The jury's finding and damage assessment under plaintiff's third theory, negligent misrepresentation, being an action in tort at law, should continue to remain unaffected. Based on the evidence,[2] plaintiff submits the amount of Sears' unjustly obtained profits can be nothing less than $44 million to the date of trial. The court as a chancellor is fully empowered to make that determination from the evidence, a determination which the jury obviously never reached because of the incorrect instruction it received.[3] Plaintiff submits that the seventh amendment right to jury trial is not

[2] Discussed more fully later at pp. 6-10.

[3] Discussed more fully later at pp. 11-12.

involved in this appeal, because, while a jury is empowered to perform and is capable of performing an accounting,[4] to have a jury do so on these equitable theories is not an absolute right, but may be performed by the chancellor, who, in any event, must effectuate the remedy.

Focusing upon the real and principal issue, the bedrock proposition which must be observed is that in an action for rescission and restitution when fraud and breach of a confidential relationship have been proved, the wrongdoer cannot remain enriched, thereby encouraging future misconduct. Plaintiff asks not that the court increase a jury award of "damages," but that the court enter the legally compelled relief which follows a finding of fraud and breach of a confidential relationship in an action for rescission.

II.

ONLY PLAINTIFF PRESENTED DETAILED ECONOMIC QUANTIFICATION OF SEARS' UNJUSTLY OBTAINED PROFITS.

By referring to testimony out of context and seriously misstating certain testimony, Sears would have this Court believe the very detailed and conservative economic analysis performed by Dr. Charles Linke, tenured economist in the Department of Finance of the College of Commerce and Business Administration, of the University of Illinois, constituted "utter speculation." We ask the Court to bear constantly in mind, however, what cost figures, price figures, overhead charges, and profit margin figures Sears introduced into evidence. The answer is—not one. Although Sears deprecates Dr. Linke's testimony by complaining that he did not know

[4] *Dairy Queen, Inc. v. Wood*, 369 U.S. 469, 478-79 (1962).

the number of Quick Release wrenches sold at the catalogue selling price, if any, at reduced sales prices, at promotional prices, or in tool sets, Sears unaccountably fails to show that Dr. Linke had requested that information and was told it was not available. (A. 423, 429, Tr. 1677, 1683).

The reason more detailed information was not available is, quite simply, that in answer to many detailed Interrogatory questions trying to elicit every aspect of Sears' sales and price data, Sears repeatedly responded that it maintained no records showing such information and that no such data was available (T. 47, 1282, 1714). Presumably those answers were true, since Sears presented not one figure at the trial. Although John Lehnhard, Sears' principal witness concerning its sales and costs, had a thick folder of papers at the witness stand during his testimony (T. 1780, 3355), he still presented not one single specific price or sales volume figure for the Quick Release wrench to the jury. As Dr. Linke testified, his analysis was based upon data taken from Sears' own Answers to Interrogatories (T. 1651). Not only did Dr. Linke request detailed data and use all of the information which Sears did disclose, he also referred to data from the U.S. Census of Manufacturers (Bureau of Census) concerning socket wrench product code 3423133 (T. 1654), data from the Federal Reserve Bulletin (T. 1665), sensitivity analysis (T. 1668), and present value theory (T. 1665). The record is crystal clear that Dr. Linke utilized the highest and best data available in reaching his conclusion.

Every assumption which Dr. Linke made was conservative, being in Sears' favor. Thus, although the data showed a 23% annual incremental increase in profit for the years 1965 through 1969, in figuring the annual incremental increase for years after 1969, Dr. Linke used

the conservative figure of 20% (T.1668, 1670). Although Sears' dollar income from sales of ratchet wrenches had been increasing dramatically each year for the decade before 1976, in estimating 1976 sales, Dr. Linke used the same figure of $26 million which Sears had actually realized in 1975 (T. 1669). Although Sears actually obtained higher prices when wrenches were actually sold some months after having been shipped, Dr. Linke used the price prevailing at the time of shipment in every instance (T. 1652). His analysis and conclusions represented a reasonable degree of economic certainty for the category of benefits representing direct incremental profit on ratchet wrench sales alone (T. 1647), were described as most fair and most conservative, and were conclusions in which Dr. Linke had great professional confidence (T. 1670, 1691). To rebut this massive and detailed proof, Sears presented no data whatever, but only the vague testimony of John Lehnhard that many of Sears' ratchet wrenches are sold in sets and at reduced sale prices.

Sears' contention that its failure to supply more detailed data concerning sales volume, costs, and pricing during pretrial discovery as well as during trial can somehow immunize it from any attempt to quantify the benefits it received, is directly contrary to decisions of this Court and others. In *Bigelow v. RKO Radio Pictures*, 327 U.S. 251, 265-66, 90 L. Ed. 652, 660-61 (1945), in discussing this precise question of sufficiency of proof, this Court reasoned:

> The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrong has created. . . . That principle is an ancient one, and is not restricted to proof of damage in antitrust suits, although their character is such as frequently to call for its application. In cases of collision where the offending vessel has violated regulations pre-

> scribed by statute, . . . and in cases of confusion of goods, . . . the wrongdoer may not object to the plaintiff's reasonable estimate of the cause of injury and of its amount, supported by the evidence, because not based on more accurate data which the wrongdoer's misconduct has rendered unavailable . . . And in cases where a wrongdoer has incorporated the subject of a plaintiff's patent or trade-mark in a single product to which the defendant has contributed other elements of value or utility, and has derived profits from the sale of the product, this Court has sustained recovery of the full amount of defendant's profits where his own wrongful action has made it impossible for the plaintiff to show in what proportions he and the defendant have contributed to the profits. . . . Difficulty of ascertainment is no longer confused with right of recovery for a proven invasion of the plaintiff's rights.

Similarly, rejecting defendant's contention that economic and financial calculations were "speculative," in *Grepke v. General Electric Co.*, 280 F. 2d 508, 512-13 (7th Cir. 1960), the court upheld the verdict based on plaintiff's proof of benefits defendant received from use of plaintiff's idea. Finding that defendant ". . . chose to rely entirely on the testimony of the plaintiff and offered nothing . . ." the court reiterated the well established rule that "It is not the law that the defendant who caused the damage can be permitted to escape liability because it is difficult for plaintiff to express in terms of dollars the damages it has suffered." *Grepke*, 280 F. 2d at 513. Indeed, many cases logically hold that when a defendant is required to *account for profits* it has unjustly obtained, plaintiff need only prove gross receipts while the burden is imposed on the defendant wrongdoer to establish any deductions, off-sets, or allocable costs, with doubts to be resolved against the

defendant. *Adolph Gottscho Inc. v. American Marking Corp.*, 139 A. 2d 281, 286-87 (N.J. 1958), *Baker v. Simmons Co.*, 325 F. 2d 580 (1st Cir. 1963), aff'd 342 F. 2d 991 (1st Cir. 1965), cert. denied, 382 U.S. 820, 15 L. Ed. 2d 67 (1965). Sears' total failure to prove any reduction from the $44,000,000 total carefully calculated by Dr. Linke from the best available data, and from the only data supplied by Sears, speaks volumes about the veracity of Sears' contention.[5]

Perhaps Sears' superficial and misleading characterization of Dr. Linke's testimony can best be refuted by reference to Sears' glaring misstatement that "Plaintiff's witnesses further conceded, and indeed it is undisputed, that each of the foregoing factors would substantially reduce the profit margin on the wrenches, thus rendering the $44,000,000 figure entirely speculative (T. 1677-1679)." Sears Br. in Opp. at 8. Reference to the trial transcript at page 1678, the very page Sears cited, shows exactly the opposite to be true. In referring to the actual data concerning the volume of wrenches sold in stores, in sets, and by catalogue, information which Dr. Linke had requested but was told could not be obtained, *Dr. Linke actually testified:*

> "They are variables that I would like to have had to consider in making my analysis but there are very good reasons why information relating to the proportion sold through the store, sold through sets, would not cause my ultimate estimation of the incremental profits realized to be substantially different than what I have just reported." (T. 1678).

[5] Indeed during the conference on instructions, counsel for Sears twice conceded that under the evidence the jury could bring in a verdict of $40 million if instructed to determine the net incremental profit realized by Sears prior to trial from the use of plaintiff's invention (T. 3267-68, 2989).

Far from conceding any reduction in profit margin on the wrenches, Dr. Linke actually testified there would be little or no difference. When Dr. Linke explained that he did consider the import of sales of wrenches in sets and offered to "review [his] logic for evaluating this if you care to have me do that," Sears' counsel responded, "We will get to that." (T. 1682-83). Not surprisingly, Sears' counsel never got to that, but when Dr. Linke was given an opportunity to explain on redirect examination, he further testified that profit margin allocated to the main selling vehicle in a tool set, the highly promotable ratchet wrench, may very well be greater than the profit margin on an individual sale and that he may very well be underestimating the profit margin for all of Sears' wrenches being sold in sets (T. 1689). The reason for this, as Dr. Linke testified, is that when tool sets are created and the pricing is determined, the sets are filled with complementary items such as sockets, Allen wrenches, and open-end wrenches which would likely not be sold unless included in the set. In addition, not every item in the set suffers a price reduction in the same percentage. Rather, the price of the wrench in the discounted set would not be less, but may well even produce a higher profit margin because the price reduction is allocated to the higher profit but complementary items (T. 1687-89). Contrary to the inference Sears raises, Dr. Linke testified that he did indeed consider the selling price of tool sets, that he knew the number of pieces and prices in the various sets, and that he did consider the import of large numbers of wrenches being sold in sets regardless of the percentage (T. 1680-81, 1683). His explanation, completely omitted by Sears in its brief, was that the import of selling wrenches in sets likely produced a higher profit margin for Sears and that his own figures probably underestimated that profit margin.

Moreover, Sears omits reference to the four other categories of benefits which both Dr. Linke and Professor Theodore Levitt, professor of business administration at the Harvard University Graduate School of Business Administration, testified *Sears undoubtedly received*, being additional profit for selling more wrenches than would otherwise have been sold (category 2), additional profit from the sale of accessories (category 3), additional profit from the sale of other hand tools (category 4), and additional profit from the sale of more general merchandise (category 5). There can be no question that Sears itself, as Professor Levitt explained, recognized that this new, highly promotable item would generate substantial store traffic and thereby substantial category 2 through 5 benefits (T. 1367-1394). Substantial monetary benefit from each of these additional categories was received by Sears because of its ability to attract customers into the store to purchase the Quick Release ratchet wrench, but none of these additional categories of benefits could be quantified within a reasonable degree of economic certainty because of the paucity of data available from Sears. Nor did Sears disclose that, in fact, these benefits were estimated by both Dr. Linke and Professor Levitt to be not less than an amount equivalent to the $44,000,000 received from the first category of direct incremental profit from the sale of Quick Release wrenches (T. 1394, 1647-49, 1672; A. 356-58). Although plaintiff's detailed economic analysis based on the most specific data available shows Sears' direct incremental profit benefit to be conservatively calculated at $44 million, Sears' actual profit from other benefits equals or exceeds that figure by at least another $44 million, an amount which plaintiff has not even requested.

Finally, the credibility of Sears' vague reference about "sets" and "sale prices" should be judged in the light of Sears' contention at trial that the catalogue price (used by plaintiff's experts) exceeded the store prices of wrenches. (T. 1281). Rebuttal proof showed that in 12 stores in northern Illinois and across the United States at the very time this trial was taking place, the store price in every instance equalled or exceeded the catalogue price (Px 211-222; T. 2697-2704).

Sears' contention (made and corrected before the Court of Appeals) that "more than two-thirds of the wrenches were included in tool sets that contained hundreds of tools" (Sears' Br. in Opp. at 8) also finds no support in the record. In fact, the very reference Sears cites (T. 1782-83) shows, to the contrary, that instead of combining "hundreds" of tools, the three largest selling tool sets contained only 88, 63, and 31 pieces respectively.

Sears' statement, repeated again in its Brief in Opposition at page 9, that "the jury was instructed to consider the value of plaintiff's patent in arriving at its verdict (A. 485)," is also demonstrably false. Reference to the instruction which the trial court formulated and gave, and which the Court of Appeals quoted (*Roberts*, 573 F. 2d at 980, n. 2) shows conclusively that the patent was not even mentioned and that the measure of recovery was unspecified, only permitting consideration of the profits and benefits Sears derived from the use of Roberts' Quick Release device.

To conclude this section, it may be helpful to consider that even taking Sears' argument at face value, that 2/3rds of its wrenches are sold in sets and that many wrenches are sold at reduced prices in stores, these generalities do not conflict with the explanation given

by Dr. Linke (omitted by Sears) which described how selling wrenches in sets at reduced prices allowed Sears to realize incremental profit even larger than his calculated figure. Because the proof fully supports the total of $44 million, which is a conservative measure of Sears' unjust enrichment, without even considering the equally valuable additional benefits Sears obtained, the $1 million verdict reached by the jury (which clearly cannot be a measure of Sears' profits) provides adequate reason for this Court to exercise its power to correct the result reached below which unjustly enriches Sears by tens of millions of dollars.

III.

PLAINTIFF DID OBJECT BUT IN ORDER TO HAVE ANY INSTRUCTION CONCERNING MONETARY RECOVERY AT ALL, WAS FORCED TO ACQUIESCE IN THE ERRONEOUS INSTRUCTION DRAFTED AND GIVEN BY THE COURT.

Again out of context, Sears quotes one passage which, if left standing alone, would appear to indicate that plaintiff's counsel agreed to and tendered the erroneous instruction which produced the unjustly low jury assessment of profits. Unfortunately, Sears did not disclose to this Court that plaintiff had tendered two forms of instruction concerning monetary recovery prior to the trial court's decision to draft its own instruction (T. 2978, 3166), that both had been refused by the court for the reason that they directed the jury to determine the amount of Sears' net profit as the measure of recovery (T. 2989-90, 3170), that the court then dictated its own instruction which plaintiff wrote out and had typed and returned to the court (T. 3191-95), and that unless the court's draft was given, no instruction concerning monetary recovery would have been given at all.

Even more importantly, in passages not quoted by Sears, plaintiff's counsel explicitly preserved plaintiff's objection to the court's draft and stated the reason the court's dictated instruction was being used. Thus, counsel said:

> "The damage instruction redrafted as per the Court's suggestion this morning. I notice, I just want to say for the record it was our understanding the court had earlier refused an instruction asking, telling the jury they had to award profits." (T. 3266)
>
> . . .
>
> "I will just say for the record, Your Honor, this is being submitted because of the Court's ruling that the jury should not be instructed that they had to bring in the profits." (T. 3269)

Sears recognizes the fact that plaintiff did everything possible to preserve his position concerning the instruction by claiming that: "Even if it was not so clear that plaintiff had tendered the instruction, he obviously failed to object . . ." Sears Br. in Opp. at 10. It is clear, to the contrary, that plaintiff did not actually "tender" the instruction and had preserved his objection. To illustrate, one need only ask what more could plaintiff have done, and still have this lengthy trial come to some conclusion? Nothing that transpired during the instruction conference stands as any bar to plaintiff's persistent request that, in accord with uniform authority since the beginning of Anglo-American jurisprudence, this fraudfeasor be deprived of its ill-gotten gains.

CONCLUSION

To date, in conflict with decisions of this Court and those of virtually every other court in the land, and as the direct consequence of an erroneous instruction to the jury at trial, and of the refusal of the court to grant equitable relief, a corporation which committed fraud and breach of a confidential relationship has been allowed to retain tens of millions of dollars in unjust enrichment. The consequence, if this result stands, is to encourage predatory business practices, since the risk of detection entails no risk of monetary loss. To correct this unjust result, plaintiff respectfully requests that his Cross-Petition For Writ Of Certiorari be granted.

Respectfully submitted,

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